



ECO News

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NYS Comptroller

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Office of the New York State Comptroller

A MESSAGE FROM THE COMPTROLLER

As unprecedented fires burned in the West and powerful storms flattened or flooded homes, businesses and vital infrastructure in every corner of the nation, 2020 painted a vivid picture of the potential for climate change to disrupt our lives. But these natural disasters are not the only risk we face. As the world works to address the climate change crisis, companies and countries that fail to take the issue seriously risk their access to overseas markets. Nations working to lower their greenhouse gas emissions have been increasingly concerned with the carbon footprint of the goods they import. This concern has already led to the cancellation of a liquid natural gas deal between a U.S. company and a French utility.

New York State is taking significant action to mitigate climate change with the passage and implementation of the Climate Leadership and Community Protection Act. Fortunately, we now have a constructive partner at the federal level. Discussions at the Securities and Exchange Commission on efforts to require companies to improve reporting on climate-related risks and their efforts to address these risks are particularly encouraging. In 2019, only 41 percent of companies in the Russell 1000 Index responded to CDP's (formerly the Climate Disclosure Project) climate change questionnaire.

As Trustee of the New York State Common Retirement Fund (Fund) I have been aggressive in seeking this information from companies to ensure that the Fund will be insulated against climate risks. Building on the Fund's 2019 Climate Action Plan (CAP), I announced initiatives to achieve net zero greenhouse gas emissions (GHG) from the Fund's investments by 2040, and to expedite evaluation of low carbon transition risks in the fossil fuel sector companies among the Fund's investments by 2025. Companies that do not meet CAP criteria will be placed on a watch list for engagement. Companies that do not improve their performance may face investment restrictions, including divestment.

This edition of *EcoNews* provides more detail on our work at the Fund to address the investment risks posed by climate change and to take advantage of opportunities to invest in climate solutions. It also discusses our work to improve the environmental performance of the Office of the State Comptroller and to ensure that other agencies and authorities are working to effectively meet the State's environmental challenges.

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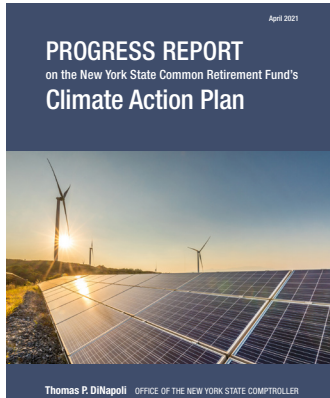
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REACHING THE PENSION FUND'S NET ZERO GOAL

Comptroller DiNapoli believes that investors who work to align their portfolios with the goals of the Paris Agreement will be best positioned to succeed in the global transition to a low carbon economy. The first annual [Climate Action Plan Progress Report](#) documents the Fund's 2020 efforts to achieve this result. The report includes information on achieving net zero GHG emissions in the investment portfolio by 2040 and provides details on the Fund's climate-related corporate engagement, proxy voting and advocacy for sound climate policy.

The report presents the results of the Fund's transition readiness assessments of thermal coal and oil sands investments, as well as the sources of data and analysis to be used in the ongoing assessments of other industries facing outsized risks due to climate change.



A review of companies in the thermal coal industry was completed in 2020—resulting in the divestment of 22 companies—and a review of oil sands producers recently resulted in the decision to divest from seven additional companies that failed to demonstrate transition readiness in accordance with the Fund's minimum standards. Comptroller DiNapoli has committed to completing the assessment of other energy sector companies in the Fund's investment portfolio by 2025.

The report also discusses the Comptroller's commitment to expanding the Fund's Sustainable Investment and Climate Solutions program to \$20 billion by 2030, which will also help move the investment portfolio to net zero for GHG emissions.

Recent Sustainable Fund Investments

Copenhagen Infrastructure Partners

A European (Nordic-based) manager that makes investments in renewable assets including on and off-shore wind and solar power, as well as climate infrastructure assets that support renewable power including electrical transmission.

Excelsior Renewable Energy Investments

A North American-based manager that makes investments designed to displace conventional power plants and reduces negative environmental impact from more carbon-intensive energy sources by producing non-GHG emitting renewable power.

Retirement Fund Engagement with New York Gas Utilities

The New York State Common Retirement Fund invests in New York State natural gas utilities which must now determine how to successfully reduce GHG emissions in line with the requirements of the State's Climate Leadership and Community Protection Act (CLCPA), while continuing to produce returns for their investors. In November 2020, Comptroller DiNapoli opened dialogues with utilities in the Fund's investment portfolio, including: Consolidated Edison, Inc., National Fuel Gas Company, National Grid plc and Avangrid, Inc. (New York State Electric and Gas and Rochester

Electric and Gas). Among the questions guiding this engagement are:

- What are your transition strategies to comply with the emission reduction goals of the CLCPA?
- What are your company-wide time bound targets to meet the emission reduction goals of the CLCPA?

The Comptroller will be pursuing answers to these questions over the coming months.

ENVIRONMENTALLY THEMED SHAREHOLDER RESOLUTIONS IN 2021

A growing body of research shows that companies that do a good job of addressing material sustainability issues perform better for their shareholders. To monitor the performance of companies in the New York State Common Retirement Fund investment portfolio, Comptroller DiNapoli has an active corporate governance program that meets regularly with company leadership on sustainability issues. The Fund also files shareholder resolutions to allow company owners to weigh in on sustainability issues with company management. Over the course of his tenure, Comptroller DiNapoli has filed over 150 climate change related shareholder resolutions and reached 77 agreements with portfolio companies to: analyze climate risks; set GHG reduction targets; set renewable energy and energy efficiency goals; prevent deforestation; publish sustainability reports; and appoint directors with environmental expertise.

For 2021, Comptroller DiNapoli has filed 11 environmentally themed shareholder resolutions: four asking companies to set targets for increased use of clean energy (Advance Auto Parts, McKesson Corporation, Pentair plc and Realty Income Corporation); three requesting targets for GHG reductions (Albemarle Corporation, Cleveland-Cliffs Inc. and Domino's Pizza, Inc.); and four asking companies to consider performance on environmental, social and governance (ESG) measures in executive

compensation decisions (McDonald's Corporation, Pilgrim's Pride Corporation, Treehouse Foods, Inc. and Tenet Healthcare Corporation).

Agreements were reached with nine companies:

- 🌍 Domino's Pizza pledged to adopt GHG targets;
- 🌍 Steel maker Cleveland-Cliffs Inc. set GHG targets and committed to co-funding a green hydrogen project;
- 🌍 Chemical maker Albemarle Corp. committed to adopting GHG targets;
- 🌍 Water treatment company Pentair plc agreed to commit to setting GHG and clean energy targets;
- 🌍 Commercial property owner Realty Income Corp. agreed to commit to adopting GHG targets by engaging with its clients;
- 🌍 Advance Auto Parts agreed to adopt GHG targets and clean energy targets;
- 🌍 McDonald's Corporation, Tenet Healthcare Corporation, and Treehouse Foods, Inc. will consider ESG measures in executive compensation decisions.

The other resolutions will be put to a vote.



ENVIRONMENTAL AUDITS AND REPORTS

The Office of the State Comptroller maintains an active program to audit and report on the performance of State agencies, local governments and public authorities in implementing programs to protect the environment and public health. These [audits and reports](#) are available on the Comptroller's website. Recently released environmental publications include:

Resources and Responsibilities: New York State's Environmental Funding

This [report on the Department of Environmental Conservation](#) found that while the agency had taken on significant new responsibilities, including implementing the State's new climate law, state operations spending had declined and staffing remained flat over the last 10 years. In addition, a review of agency performance measures found declines in some clean air and clean water measures.

This report illustrates the need for a thoughtful, wide-ranging discussion among policymakers and the public regarding the adequacy of the resources currently allocated to the DEC to carry out its critically important functions.

City of Syracuse: Water System Cybersecurity

Auditors [analyzed the procedures used to protect computer systems](#) controlling the Syracuse public water system and found that these systems were vulnerable to malicious attacks that could interrupt service or contaminate drinking water.

Cayuga County Soil and Water Conservation District: Financial Condition

An [audit of the Soil and Water District](#) found that the District Board did not require certain financial reports and information needed to properly oversee the District's financial condition. Because of this failing, the Board was unable to take corrective action to remedy revenue shortfalls and cost overruns, leading to an approximate \$1 million decline in the District's fund balance.

Department of Environmental Conservation: Compliance with the Sewage Pollution Right to Know Act and Monitoring and Enforcement of SPDES Permit Requirements

[Auditors found](#) 22 percent of publicly owned sewer systems failed to comply with provisions of the Sewage Pollution Right to Know Act. In addition, some Clean Water Act pollution control (SPDES) permit holders failed to report pollution discharge violations and failed to follow up on compliance actions in a timely way.

New York City Department of Sanitation/ New York City Mayor's Office of Operations: Street and Sidewalk Cleanliness

[Auditors evaluated the system](#) used by New York City to monitor the cleanliness of streets and sidewalks and to schedule street cleaning activities.

The audit found that agencies responsible for street cleaning could improve the cleanliness of City streets through improved communication, coordination and record keeping. Agencies did not communicate crucial information on the status of street cleanliness and overlooked important data sources, such as the City's NYC311 line for public complaints.



PROMOTING WORKPLACE EFFICIENCY AND REDUCING WASTE

The Office of the State Comptroller performs a number of services vital to New York State government operations, including issuing the State payroll, working closely with the State Financial System, auditing and processing payments, administering the State Oil Spill Fund and reviewing and approving certain State contracts. To promote Comptroller DiNapoli's goal to improve workplace efficiency and make State government more sustainable, the Office is working to reduce the State's reliance on paper to transact business. These efforts have taken on greater importance as the COVID-19 pandemic has forced an increased reliance on telecommuting.

The Bureau of Financial Reporting and Oil Spill Remediation made its internal review process completely paperless and, by encouraging stakeholders to access its reports electronically, has reduced the number of bound copies produced to under 100 annually.

Over the last six months, the Bureau of State Expenditures' Vendor Management Unit made 60 percent of payments to vendors electronically and is taking steps to further reduce paper in its work.

The Bureau of Contracts eliminated 99 percent of paper submittals for certain work streams by establishing an electronic document submission system and is digitizing contract files, reducing the need to physically transport files between work locations.



The Bureau of State Accounting Procedures made significant progress in promoting the State government's move into secure electronic banking, reducing the need for paper bank statements and other paper documents. Through these efforts it has eliminated almost all prior paper needs.

On April 2, the Bureau of State Payroll Services brought all State agencies online with New York State Payroll Online. This system allows electronic access to pay stubs, W-2 forms and tax statements. The Bureau is also aggressively promoting direct deposit, resulting in a 14 percent decline in the number of employees receiving paper checks.

These actions will save the State money on the purchase and recycling/disposal of paper, as well as reducing the State's impact on the environment.



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